

# Foreign Direct Investment (FDI) in SAARC Countries

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## Abstract

The South Asian Association for Regional Cooperation was officially established in December 08, 1985. The South Asian Free Trade Area (SAFTA) enter into force on July 01, 2006 under the umbrella of SAARC. From the same platform the SAARC Agreement on Trade in Services enter into force on November 29, 2012. SAARC Agreement on Promotion and Protection of Investment is yet to be finalized and enter into force. In the meantime 30 years gone. SAARC is the home of 21

**Index terms**— foreign direct investment (FDI); FDI into SAARC region, intra-SAARC FDI trend; investment promotion under the umbrella of SAARC; SAARC agreement on in

## 1 Introduction

he South Asian Association for Regional Cooperation (SAARC) was officially established in December 08, 1985. But the idea for the SAARC was proposed on ??ay 2, 1980, by Ziaur Rahman, the then President of Bangladesh. Major objective of the SAARC is to undertake collective effort toward collective progress for the involved nations of South Asia. Current members of SAARC are the Afghanistan, Bangladesh, Bhutan, India, Maldives, Nepal, Pakistan, and Sri Lanka. Since inception SAARC leaders meet 18 times and signed a long list of agreements, conventions, understandings and declarations.

Most importantly a number of regional centers were established including the SAARC Agricultural Centre (SAC), SAARC Meteorological Research Centre (SMRC), SAARC Forestry Centre (SFC), SAARC Development Fund (SDF), SAARC Documentation Centre (SDC), SAARC Disaster Management Centre (SDMC), SAARC Coastal Zone Management Centre (SCZMC), SAARC Information Centre (SIC), SAARC Tuberculosis and HIV/AIDS Centre (STAC), SAARC Human Resources Development Centre (SHRDC), SAARC Energy Centre (SEC), and SAARC Cultural Centre (SCC) etc. under the umbrella of SAARC. A good number of apex bodies (professional body, trade body) were establish like SAARC Chamber of Commerce & Industry (SCCI), South Asian Association For Regional Cooperation In Law(SAARCLAW), South Asian Federation of Accountants (SAFA), South Asia Foundation (SAF), South Asia Initiative to End Violence Against Children (SAIEVAC), and Foundation of SAARC Writers and Literature (FOSWAL) etc. under the same umbrella.

Vital achievement of SAARC is to negotiate, sign and activate the South Asian Free Trade Agreement (SAFTA). It opened up our eyes to go further cooperation with visa free South Asia, South Asian Customs Union, South Asian Economic Union, South Asian Investment Forum, South Asian Common Market, South Asian Single Currency, South Asian Common Security Force, South Asian Roads and Water Transport Movement, and South Asian Free Movement of People and Goods etc.

SAARC has potentials to be a powerful regional block in near future if our political leaders become wise, liberal and compromising. SAARC covers 3% of world's geographic territories with 9.12% of global wealth, 21% of world's population (about 1.7 billion). Combined SAARC is the world's 3 rd largest economy after the United States and China. Coverage and capacity of SAARC could be further extended if two neighboring observers' state the Myanmar and China upgraded into full member status (may be in near future).

Along with all the above achievements SAARC has few limitations like significant amount of world's poor populations, lack of human development initiatives, political rivalry between the member states, emergence of few trade agreement among few members countries, poor infrastructure, lack of connectivity, complex visa procedures and mistrust between the general people derived from religious extremism etc. derives from or by this frustrated poor populations. Human capacity development initiative should be the number one priority for the

## 9 A) RANKING OF THE SAARC COUNTRIES IN FDI ATTRACTION

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SAARC leaders at this moment. Employment generation and entrepreneurship development could be the best tools to overcome this severe problems of the SSARC region. It will increase combined SAARC GDP, export earnings, and ensure faster and inclusive economic growth of the region.

Common initiative could be taken to increase investment in the SAARC region either by the entrepreneurs of SAARC member states or to attract foreign direct investment (FDI) into the SAARC region.

### 2 b) Objectives of this study

Main objective of this study is to analyze current trend of FDI into the SAARC countries. What are the potential sectors for investment in the SAARC countries, who are the investor countries, what are the challenges to increase intra SAARC FDI, How intra SAARC FDI could be further promoted under a common platform.

### 3 c) Methodology

This study is conducted based on the secondary data and information available in different international databases and publications. A number of research articles, study reports, working papers etc. were studied to find out the facts.

### 4 d) Scope of the Work

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### 5 e) Limitation of this study

Main limitation of this study is it contains secondary study materials only. A number of focused group discussion (FGD), key informant interview (KII) could be organized in each of the SAARC countries to find out the fact from the primary sources. As we have budgetary constraints and limited resources we studies only secondary materials and used information from several internationally reputed databases.

### 6 f) Literature Review

The Government of the People's Republic of Bangladesh sent a proposal to the Heads of the States of seven South Asian countries to think about a platform of regional cooperation in November 1980. Following that proposal, Foreign Secretaries of seven South Asian countries met for the first time in Colombo in April 1981. That meeting was followed by the foreign ministers' meeting in New Delhi in August 1983, the adoption of the Declaration on South Asian Regional Cooperation, as well as the launching of the Integrated Program of Action (IPA), which initially addressed five areas of cooperation: (i) agriculture, (ii) rural development, (iii) telecommunications, (iv) meteorology, and (v) health and population. Two additional areas, covering (vi) scientific and technological cooperation and (vii) sports, arts and culture were added to the IPA at a later stage. At a meeting of Heads of State of Government, held in Dhaka on 7-8 December 1985, a Charter was adopted that formally to establish South Asian Association for Regional Cooperation (SAARC). The 1985 meeting in Dhaka is subsequently known as the first SAARC Summit (Abdin 2009).

The SAARC Preferential Trading Arrangement (SAPTA) was initiated in April 11, 1993 Due to the rival political relationship among few SAARC countries it took time to make decision and enter into force. Therefore several regional / bilateral initiatives like, APTA, BIMSTEC were signed or reinforce to offer similar free trade cooperation with few of the SAARC members states. But to be a real regional economic block SAARC has no alternative. Therefore it is time for the South Asian Leaders to make it effective and more cooperative along with investment agreement, free movement of people and goods, regional land, sea and air connectivity, transport facility, investment promotion etc. features.

## 7 II.

### 8 Fdi Inflows into the saarc Countries

During last 10 years the largest economy of SAARC i.e. India got highest amount of FDI inflows followed by Pakistan, Bangladesh and Sri Lanka. The land locked countries like Nepal and Bhutan is performing poor in this regard. War affected Afghanistan's performance is extremely poor in FDI attraction. From an analytical point of view overall performance of SAARC countries in FDI attraction in comparison with Vietnam, Singapore is not well at all.

### 9 a) Ranking of the SAARC countries in FDI attraction

If we consider total amount of FDI inflows into the SAARC countries India got 85% of total FDI inflows into the SAARC countries. Then 85% of the total inflows entered into India followed by Pakistan with 9% of total FDI inflows and Bangladesh's position is 3 rd with only 3% of total FDI inflows.

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## 10 b) FDI Inflows (Net) in percentage of GDP of the SAARC countries

Maldives is the only SAARC country attracted FDI inflow about 13% of its total GDP. Bhutan got about 3% of its GDP. India got 1.5% even sometimes 3.5 % of its GDP. Bangladesh being able to attract FDI up to 1% of its GDP.

From this perspective SAARC countries are performing very poor in comparison with the ASEAN countries. For example Singapore got FDI inflow about 22% of its GDP. Vietnam got FDI inflow about 7% of its total GDP. Thailand, Indonesia and Malaysia is also doing comparatively well in FDI attraction than that of the SAARC countries.

If a combined effort is taken under the umbrella of SAARC to establish an institute for promoting FDI into the SAARC countries and inspiring intra SAARC FDI investment then obviously SAARC countries will perform better than their current condition. c) Top 10 Sectors attracting more FDI into the SAARC Region SAARC countries are having almost similar product in their export basket, accordingly SAARC countries are trying to get investment into the same industrial sector of their own. For example Textile, clothing and readymade garment is a common industrial sector for almost all the SAARC countries like, Bangladesh, India, Sri Lanka and Pakistan everybody is trying to flourish respective garment industries and get FDI in it.

Similarly telecommunication, IT, ICT and Tourism are the common sectors for almost every SAARC countries. For example Bangladesh, India, Afghanistan are getting highest FDI in respective telecommunication and ICT sector. At the same time Nepal, Bhutan, India, Bangladesh, Sri Lanka, Maldives are fighting to promote respective tourism sectors and attract more tourists into their spots.

Generally it may be understand that all the SAARC countries are fighting with same industries but there are some basic differences as well. Therefore we are in need of classifying the industries based in respective competitive advantages. Allocating specialized sector for respective countries. So that, we will not be competitor rather we all countries will promote others industries as complement not supplement each other's. For example Afghanistan, Bangladesh Nepal, Bhutan, India and Pakistan have hill stations as tourist spots. But same environment is not everywhere. Pakistan, India and Nepal have snow covered hill station on the other hand Bangladeshi hill stations are ever green. Bangladesh, India, Sri Lanka, and Maldives have sea beaches but Nepal, Bhutan and Afghanistan do not. So they could promote the beauty of sea beaches to the tourist used to visit hill station this year it may be happened they are planning to visit a sea beach next year.

## 11 d) Sources of FDI into SAARC Countries

Most of the SAARC countries got FDI investment from the western countries like USA and EU member states. There are few regional like Singapore, China, Japan and Indian investments as well.

## 12 a) Current economic dynamics of the SAARC Countries

SAARC is covering about 3% of global territory with all features of the earth. There are to mountains, deep oceans, longest sea beaches, deserts, plain lands, green fields etc. Most of the SAARC countries have more than thousand dollar GDP per capita and positive growth rates. SAARC countries are till now trade deficit countries. All the SAARC countries are importing more than that of their exports. As a result united SAARC is one of the largest buyers of the globe. Most of the SAARC countries used to import capital machineries, raw materials, and chemicals. On the other hand their export basket is comparatively small and fixed with same or similar products. They must have to diversify their export basket to grow further and capture a larger portion of the global trade. e) Free movement of people and goods shall be practically encouraged by developing road, sea and air connectivity along with sufficient transports available.

f) Special attention shall be given to identify and remove non-tariff barriers existing or upcoming in the SAARC region.

V.

## 13 Concluding Remarks

South Asian Association for Regional Cooperation (SAARC) has already spent plenty of time without of no use. It took comparatively longer period than that of the EU, ASEAN or even NAFTA to be effective in terms of trade and investment cooperation. A significant amount of world's poor population is living in this region. At the same time SAARC has potentials to grow faster and alleviate poverty within shortest possible time. Therefore it is our political leader's / government's turn to take decision whether they would like to drive the poor SAARC into a developed and deeply economic integrated SAARC with an effective fiscal union or let the SAARC to be further ineffective day by day.

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Figure 1:

region. Most of the criminal/terrorist/illegal occurrences Organizing  
SAARC Trade Fairs, and establishing SAARC  
Arbitration Council etc.  
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Standards, Cooperation in Avoidance of Double  
Taxation, Custom, SAARC, STAT,

Figure 2:

1

Country/ Years	2004	2005	2006	2007	2008	2009	2010	2011	2012	2013
Afghanistan	186.9	271	238	188.69	94.38	75.73	211.25	83.41	93.8	69.29
Bangladesh	460.4	845.26	792.48	666.36	1086.31	700.16	913.32	1136.38	1292.56	1599.13
Bhutan	8.85	6.21	72.16	3.02	19.90	71.65	30.80	25.92	21.83	21.28
India	5777.80	7621.76	20327.76	25349.89	47138.73	35657.25	27431.23	36190.4	24195.77	28199.44
Maldives	52.93	73.23	95.22	132.43	181.25	157.96	216.46	256.46	283.97	325.25
Nepal	-0.41	2.45	-6.64	5.89	1.01	38.55	86.73	95.48	91.97	73.63
Pakistan	1118	2201	4273	5590	5438	2338	2022	1326	859	1307
Sri Lanka	233	272	480	603.4	752.2	404	477.6	981.1	941.12	915.57

[Note: Source: UNCTAD Start Database (<http://unctadstat.unctad.org/wds/TableView/tableView.aspx>). Col-  
lected on August 6, 2015. Compiled by the author.]

Figure 3: Table 1 :

## 2

Country	Total FDI	Each country	FDI Rank- ing
	Inflow (2004 -2013)	share	
Afghanistan	1512.46	0.49 %	6th
Bangladesh	9492.36	3.12 %	3rd
Bhutan	281.65	0.09 %	8th
India	257890.05	84.86 %	1st
Maldives	1775.21	0.58 %	5th
Nepal	388.67	0.12 %	7th
Pakistan	26472	8.71 %	2nd
Sri Lanka	6059.99	1.99 %	4th
Grand Total	303872.39	100 %	

Source: Compiled by the author based on UNCTAD Start Database.

Figure 4: Table 2 :

## 3

Country/Year	2004	2005	2006	2007	2008	2009	2010	2011	2012	2013
Afghanistan	3.5	4.3	3.4	1.9	0.9	1.7	0.5	0.5	0.5	0.3
Bangladesh	0.7	1.1	1.0	0.8	1.1	0.8	0.7	0.9	1.1	1.0
Bhutan	1.3	0.8	0.7	6.2	0.2	1.4	4.7	1.7	1.3	2.8
India	0.8	0.9	2.1	2.0	3.5	2.6	1.6	2.0	1.3	1.5
Maldives	4.4	4.7	4.3	7.6	8.6	7.3	9.3	17.2	9.0	13.3
Nepal	0	0	-0.1	0.1	0	0.3	0.5	0.5	0.5	0.4
Pakistan	1.1	2.0	3.1	3.7	3.2	1.4	1.1	0.6	0.4	0.6
Sri Lanka	1.1	1.1	1.7	1.9	1.8	1.0	1.0	1.6	1.6	1.4

Figure 5: Table 3 :

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Sl.	Afghanistan	Bangladesh	Bhutan	India	Maldives	Nepal	Pakistan	Sri Lanka
1	Agriculture and Re-related Industries	Textiles, clothing and leather	Hotels	Unspecified secondary	Tourism	Hydro-electricity	Petroleum	Chemicals and chemical products
2	Construction	Finance	Agro & Food	Hotels and restaurants	Fisheries	Tourism	Finance	Food, beverages and tobacco
3	Telecommunications	Electricity, gas and water	Financial Services	Finance	Transportation & shipping	Health	Chemicals and chemical products	Metal and metal products
4	Transports and logistics	Transport, storage and communications	IT	Electricity, gas and water	Telecommunication & ICT	Education	Motor vehicles and other transport equipment	Non-metallic mineral products
5	Mining	Non-metallic mineral products	Ferro Alloys	Construction	Power	ICT	Electricity, gas and water	Other manufacturing
6	Power	Chemicals and	Power	Business		Carpets &	Construction	Textiles, clothing

[Note: Nepal:Adhikari, R. (Undated). Foreign Direct Investment in Nepal: Current status, prospects and challenges, South Asia Watch on Trade, Economics and Environment (SAWTEE), Working Paper No. 01/13.]

Figure 6: Table 4 :

Sl. Afghanistan 1 India 2 USA

Bangladesh India Malaysia Nepal Sri Lanka  
 United Kingdom India Malaysia USA  
 Arab Emirates Singapore  
 Kingdom of Saudi Arabia  
 (KSA)

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[Note: iv. Smith, S.(2013). Sri Lanka earns \$870m in Foreign Direct Investment in 2013, the Republic Squire. Link is <http://www.therepublicsquare.com/business/2013/12/sri-lanka-receives-870-m-in-foreign-direct-investment/>. v. Adhikari, R. (Undated). Foreign Direct Investment in Nepal: Current status, prospects and challenges, South Asia Watch on Trade, Economics and Environment (SAWTEE), Working Paper No. 01/13. vi. Kundur, S.K. (2012). Development of Tourism in Maldives, International Journal of Scientific and Research Publications, Volume 2, Issue 4, April 2012. C e)]

Figure 7: Table 5 :

6

Country / Years	2004	2005	2006	2007	2008	2009	2010	2011	2012
Afghanistan	..	..	..	..	..	..	..	..	..
Bangladesh	5.7	3.3	3.6	21	9.3	29.3	15.4	13.0	12.7
Bhutan	..	..	..	..	..	..	..	..	..
India	2175	2965	4828	4.9	1723	3170	6361	5932	7484
Maldives	..	..	..	..	..	..	..	..	..
Nepal	..	..	..	..	..	..	..	..	..
Pakistan	56	45	109	98	49	71	47	62	82
Sri Lanka	6	38	29	55	61.7	20	42.5	60	63.9

Source: UNCTAD Start Database (<http://unctadstat.unctad.org/wds/TableView/tableView.aspx>). Collect

Compiled by the author.

### III. Economic and Trade Co-operation

under saarc

Till now SAARC do not have visible achievements in terms of investment promotion. But I think it's ground works were started in form of signing and activating South Asian Free Trade Agreement (SAFTA), SAARC cooperation in Standards, SAARC Agreement on Trade in Services, Cooperation in Avoidance of Double Taxation, SAARC Customs Cooperation, Organizing SAARC Trade Fairs for several times, establishment of SAARC Chamber of Commerce and Industry, and SAARC Arbitration Council. Now it is the time to finalize and activate Agreement on Promotion and Protection of Investment among the SAARC Countries. This agreement may consider to establish a body for united effort to attract foreign direct investment (FDI) into the SAARC states based on respective competitive advantages of different member countries.

Figure 8: Table 6 :



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Global Jour- nal of Man- age- ment and Busi- ness Re- search	Countries / Indi- cators	Territory (km <sup>2</sup> )	Population	GDP (PPP, in bn. USD)	GDP (Nom- inal, in bn. USD)	GDP Per- capita (nom- inal, in USD)	Total Export -2014 (in USD thou- sand)	Total Import -2014 (in USD Thou- sand)	Trade Balance (in USD Thou- sand)
	Afghanistan	652,000	31,822,848	2.83	1.94	5,973	218,373	1,253,733	-1,035,360
	Bangladesh	147,570	156,594,962	62.38	19.92	743	910,849	7,295,737	-6,384,888
	Bhutan	38,394	1,210,193	25.83	250.13	1,342	24,722,182	47,544,889	-22,822,707
	India	3,287,590	1,210,193,426	572.44	21.74	1,808	317,544,642	459,369,464	-141,824,822
	Maldives	298	393,500	2.84	1.94	5,973	218,373	1,253,733	-1,035,360
	Nepal	147,181	26,494,504	62.38	19.92	743	910,849	7,295,737	-6,384,888
	Pakistan	803,940	191,715,847	28.43	250.13	1,342	24,722,182	47,544,889	-22,822,707
	Sri Lanka	65,610	20,277,597	233.63	80.59	3,818	11,295,486	19,244,461	-7,948,975
	Total	5,142,583	1,638,235,407	7839	2,890	18,393	388,939,362	579,718,526	-190,779,164

[Note: Sources: Compiled by the author from Wikipedia (<https://en.wikipedia.org>), and ITC Trade Map (<http://www.trademap.org/>) on August 9, 2015.c]

Figure 9: Table 7 :



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